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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

JUL 18 2007

DOCKETED BY

MR

DOCKET NO. E-01345A-06-0779

NOTICE OF FILING

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COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
AN ORDER OR ORDERS AUTHORIZING IT TO
ISSUE, INCUR, AND AMEND EVIDENCES OF
LONG-TERM INDEBTEDNESS, AND SHORT -
TERM INDEBTEDNESS, TO EXECUTE NEW
SECURITY INSTRUMENTS, TO SECURE ANY
SUCH INDEBTEDNESS, TO REPAY AMOUNTS
PAID UNDER ANY PINNACLE WEST
CAPITAL CORPORATION GUARANTEE OF
ARIZONA PUBLIC SERVICE COMPANY
INDEBTEDNESS AND FOR DECLARATORY
ORDER.

IN THE MATTER OF THE APPLICATION OF
PINNACLE WEST CAPITAL CORPORATION
FOR AN ORDER OR ORDERS AUTHORIZING
IT TO GUARANTEE THE INDEBTEDNESS OF
ARIZONA PUBLIC SERVICE COMPANY.

Arizona Corporation Commission Staff ("Staff") hereby provides notice of filing the
following items:

- 1) Direct Testimony Gordon L. Fox;
- 2) Staff's witness list;
- 3) Staff's exhibit list.

I. Staff's Direct Testimony

The attached testimony addresses APS' comments, which were filed on May 29, 2007.

II. Staff's Witness List

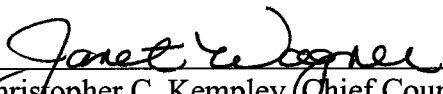
Staff will be presenting Gordon L. Fox as its witness at the July 23, 2007 hearing.

III. Staff's Exhibits

Staff will present the following exhibits:

- 1) Staff Report filed on May 18, 2007;¹
2) Direct Testimony of Gordon L. Fox;
3) Any exhibit listed by any other party.

RESPECTFULLY submitted this 18th day of July, 2007.

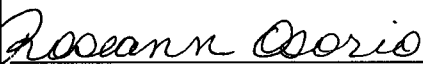

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Original and thirteen (13) copies
of the foregoing were filed this
18th day of July, 2007 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing mailed this
18th day of July, 2007 to:

Thomas L. Mumaw
Barbara M. Gomez
ARIZONA PUBLIC SERVICE CO.
PINNACLE WEST CAPITAL CORP.
400 North 5th Street, MS 8695
Phoenix, AZ 85004-3992



¹ Staff is not providing a copy of the staff report with this notice because the staff report was already filed and provided to all parties on May 18, 2007.

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01345A-07-0779
ARIZONA PUBLIC SERVICE COMPANY FOR)
AN ORDER OR ORDERS AUTHORIZING IT)
TO ISSUE, INCUR, AND AMEND EVIDENCES)
OF LONG-TERM INDEBTEDNESS, TO)
EXECUTE NEW SECURITY INSTRUMENTS)
TO SECURE ANY SUCH INDEBTEDNESS,)
TO REPAY AMOUNTS PAID UNDER ANY)
PINNACLE WEST CAPITAL CORPORATION)
GUARANTEE OF ARIZONA PUBLIC SERVICE)
COMPANY INDEBTEDNESS OF AND FOR)
DECLARATORY ORDER)

IN THE MATTER OF THE APPLICATION OF)
PINNACLE WEST CAPITAL CORPORATION)
FOR AN ORDER OR ORDERS AUTHORIZING)
IT TO GUARANTEE THE INDEBTEDNESS OF)
ARIZONA PUBLIC SERVICE COMPANY)

DIRECT TESTIMONY

OF

GORDON L. FOX

PUBLIC UTILITIES ANALYST MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 18, 2007

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EXECUTIVE SUMMARY
ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-06-0779

On December 15, 2006, Arizona Public Service Company ("APS") and Pinnacle West Capital Corporation ("Pinnacle West") filed a joint application with the Arizona Corporation Commission ("Commission") requesting Commission authorization of various financing transactions and a declaratory order regarding long-term debt classifications. On May 18, 2007, Staff filed a Staff Report recommending conditional approval of the various financing transactions and denial of the request for a declaratory order. On May 29, 2007, APS filed comments on the Staff Report. On June 22, 2007, the Commission Chief Administrative Law Judge issued a Procedural Order scheduling a hearing in this matter for July 23, 2007, and ordering APS, Staff and any intervenor to file with Docket Control all exhibits to be used at the hearing no later than July 18, 2007. The purpose of this testimony by Staff witness Gordon L. Fox is to comply with the requirements of the Procedural Order and to present Staff's final position, which includes consideration of APS' comments to the Staff Report.

Staff understands that APS supports Staff's fundamental recommendations but seeks specific modifications and clarifications. Staff has only minor contentions with APS' comments including: (1) the need to provide exemptions for existing obligations related to the sale-leaseback of Unit 2 of the Palo Verde Nuclear Generating Station to the termination of existing authorizations on December 31, 2012; (2) allowing an exemption to the termination of the long-term debt threshold on December 31, 2012 under specified circumstances; and (3) Staff's preferred use of annual audited financial statements as opposed to quarterly financial reports for application of the common equity test.

Staff makes the following recommendations:

Staff recommends increasing APS' authorized long-term debt threshold to \$4.2 billion subject to the following conditions: (1) common equity divided by common equity and long-term debt (including current maturities) is 40 percent or greater using the most recent audited financial statements adjusted to reflect changes to outstanding debt and (2) modified debt service coverage ratio is equal to or greater than 2.0.

Staff further recommends that the short-term and long-term debt levels authorized in this proceeding terminate on December 31, 2012.

Staff further recommends that the authorizations to incur short-term and long-term debt obligations provided in this proceeding replace all existing authorizations to incur new short-term and long-term debt obligations, that all existing authorizations to incur new short-term and long-term debt obligations terminate upon the effective date of the authorizations provided in this proceeding, and that all existing obligations remain valid.

Staff further recommends authorization for APS to incur short-term debt not to exceed \$500 million above 7 percent of total capital provided that (1) the excess over 7 percent of total capital

shall be used solely for costs relating to natural gas or power purchases and (2) as APS has an authorized adjustor mechanism for recovery of these kinds of costs. In the event that adjustor mechanism is terminated, the short-term debt authorizations granted should continue for only an additional 12 months.

Staff further recommends authorization for APS to (1) conduct the activities enumerated in the application that are necessary to secure and maintain debt, (2) to determine the form of security, if any, for the continuing long-term debt and the continuing short-term debt, execute and deliver the security instruments, and establish and amend the terms and provisions of the security instruments, as may be deemed appropriate by APS in connection with the long-term debt and the short-term debt, and (3) to pay all related expenses, all as contemplated in the application and by the exhibits and testimony.

Staff further recommends that when APS enters into a single agreement/transaction or an aggregate of similar agreements/transactions or an amendment(s) to an existing agreement(s) with a single entity in which APS incurs long-term debt exceeding \$5,000,000 within a calendar year, that APS file with Docket Control within 90 days a description of the transaction(s) and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time.

Staff further recommends denial of Pinnacle West's request for authorization of a waiver of A.A.C. Rule 14-2-803 pursuant to A.A.C. Rule 14-2-806. In the alternative, Staff recommends authorization for Pinnacle West to guarantee APS' debt from time to time in indeterminate amounts.

Staff further recommends authorization for APS to reimburse Pinnacle West for debt service costs paid by Pinnacle West on behalf of APS in conjunction with the provision of guarantees of APS debt and a cost of money on those payments at a rate not to exceed that of the underlying loan(s).

Staff further recommends denial of APS' request for a declaratory order confirming that only traditional indebtedness for borrowed money requires prior Commission authorization.

An increase in APS' long-term debt to \$4,200,000,000 would create a current capital structure of 43.3 percent equity and 56.7 percent long-term debt.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Gordon L. Fox. I am a Public Utilities Analyst Manager employed by the
4 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division
5 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst Manager.**

8 A. In my capacity as a Public Utilities Analyst Manager, I supervise analysts whose duties
9 include preparation of testimonies to provide the Commission with Staff recommendations
10 regarding rate base, operating income, cost of capital, rate design, securities issuance and
11 other financial regulatory matters.
12

13 **Q. Please describe your educational background and professional experience.**

14 A. I have seventeen years' regulatory utility auditing and rate analysis experience (14 years at
15 the Commission and 3 years at RUCO) and four years' experience with a cable TV utility
16 with responsibility for preparing and presenting rate applications before jurisdictional
17 authorities. I have master and bachelor degrees in Accounting, and I have earned the
18 following professional accounting and finance certifications: Certified Public Accountant
19 ("CPA"), Certified Management Accountant ("CMA") and Certified in Financial
20 Management ("CFM").
21

22 **Q. What is the purpose of your testimony in this case?**

23 A. On December 15, 2006, Arizona Public Service Company ("APS") and Pinnacle West
24 Capital Corporation ("Pinnacle West") filed a joint application with the Commission
25 requesting Commission authorization of various financing transactions and a declaratory
26 order regarding long-term debt classifications. On May 18, 2007, Staff filed a Staff

1 Report recommending conditional approval of the various financing transactions and
2 denial of the request for a declaratory order. On May 29, 2007, APS filed comments
3 ("Comments") on the Staff Report. On June 22, 2007, the Commission Chief
4 Administrative Law Judge issued a Procedural Order scheduling a hearing in this matter
5 for July 23, 2007, and ordered APS, Staff and any intervenor to file with Docket Control
6 all exhibits to be used at the hearing no later than July 18, 2007. The purpose of this
7 testimony is to comply with the requirements of the Procedural Order and to present
8 Staff's updated position that includes consideration of APS' Comments to the Staff
9 Report.

10
11 **EXHIBITS**

12 **Q. What exhibits does Staff anticipate using at the hearing?**

13 A. Staff anticipates using this testimony, the Staff Report and its attachments and all exhibits
14 used by APS. The Staff witness is Mr. Gordon L. Fox.

15
16 **STAFF'S RESPONSE TO APS' COMMENTS TO THE STAFF REPORT**

17 **Q. What is Staff's general understanding of APS' Comments to the Staff Report?**

18 A. Staff's understanding is that APS supports Staff's fundamental recommendations but
19 seeks specific modifications and clarifications.

20
21 **MODIFICATIONS TO THE CONDITIONS TO ISSUANCES OF LONG-TERM DEBT**

22 **Q. Does APS seek modifications to Staff's recommended conditions to issuances of debt?**

23 A. Yes. Staff recommended "increasing APS' authorized long-term debt threshold to \$4.2
24 billion subject to the following conditions: (1) common equity must represent at least 40
25 percent of total capital (common equity, preferred stock, long-term debt and short-term
26 debt) and (2) the debt service coverage ratio ("DSC") must be equal to or greater than

1.0.” APS seeks three modifications to Staff’s recommended conditions to issuances of debt.

Modification No. 1 – Application of Conditions

Q. What is the first modification requested by APS?

A. The Executive Summary of the Staff Report, in summarizing Staff’s recommendation, states, “Staff recommends authorization of the long-term debt threshold proposed by APS subject to the condition that subsequent to *any debt* (emphasis added) issuance common equity must represent at least 40 percent of total capital and the DSC must be equal to or greater than 1.0 (calculated using the most recent audited financial statements adjusted to reflect changes to outstanding debt).”

APS identified a discrepancy between Staff’s recommendation in the Staff Report that applies the conditions to long-term debt issuances versus Staff’s statement in the Executive Summary that applies the conditions to any debt issuances. APS states, “The Company agrees that a short-term debt component would be included in the coverage calculations at the time the Company issues long-term debt.” (Comments at 3). Staff agrees with the Company’s clarification that the conditions would be applied at the time the Company issues long-term debt and that the calculation would include short-term debt.

Modification No. 2 – Calculation of Common Equity Test

Q. What is the second modification requested by APS?

A. The Staff Report defines the 40 percent equity test as a fraction with common equity as the numerator and the aggregate of common equity, preferred stock, long-term debt and short-term debt as the denominator. APS suggests using the definition adopted in Decision No. 65796 that uses common equity as the numerator and common equity and

1 long-term debt (including current maturities) as the denominator. APS suggests this
2 change "for the sake of consistency." (Comments at 3). Staff has no objection to the
3 Company's suggested change.

4
5 In addition, according to the Staff Report, the 40 percent equity test would use "the most
6 recent audited financial statements adjusted to reflect changes to outstanding debt." APS
7 instead proposes to use "the most recent fiscal quarter." (Comments at 3). Staff continues
8 to advocate use of audited financial statements.

9
10 **Modification No. 3 – Debt Service Coverage Ratio**

11 **Q. What is the third modification requested by APS?**

12 A. For the purpose of measuring the DSC conditional requirement for debt issuance, the Staff
13 Report defines DSC as operating income plus depreciation and amortization and income
14 tax divided by interest and principle on short-term and long-term debt less short-term debt
15 and interest related to purchased power and natural gas and using the most recent audited
16 financial statement adjusted to reflect change to outstanding debt.

17
18 APS proposes to use a "Modified DSC" that would exclude principal debt repayments.
19 (Comments at 5). Exhibit B of APS' Comments provides a detailed example of its
20 proposed Modified DSC calculation. Staff has no objection to use of the Modified DSC
21 as a conditional requirement for debt issuance. However, the Modified DSC is not
22 directly comparable to Staff's proposed DSC. In general, the Modified DSC is a
23 considerably less restrictive standard. Staff's DSC is roughly twice as restrictive as the
24 Modified DSC. If the Commission were to adopt the modified DSC approach, it would be
25 necessary to adjust it upward. In other words, since Staff recommended a 1.0 DSC
26 conditional requirement, a similar conditional requirement is a Modified DSC of 2.0.

CLARIFICATION/MODIFICATION TO SHORT-TERM DEBT RECOMMENDATIONS

Q. Does APS seek clarification/modification to Staff's recommended conditions to issuances of short-term debt?

A. Yes. Staff recommended "authorization for APS to incur short-term debt not to exceed \$500 million above 7 percent of total capital as long as 1) the excess over 7 percent of total capital shall be used solely for costs relating to natural gas or power purchases and 2) APS has a Commission-authorized adjustor mechanism for recovery of these costs." (Staff Report at 6) APS seeks two clarifications/modifications to Staff's recommendation.

Clarification/Modification No. 1 – Define "these costs."

Q. What is the first clarification/modification to Staff's short-term debt recommendations requested by APS?

A. APS suggests replacing the phrase "for recovery of these costs" to "for recovery of natural gas or power purchases" to provide clarity. Staff supports this change.

Q. What is the second clarification/modification to Staff's short-term debt recommendations requested by APS?

A. APS suggests that the authorization related to issuance of short-term debt granted by the Commission not terminate concomitantly with the termination of a Commission-authorized adjustor mechanism. Instead, APS requests that, in the event that the adjustor mechanism is terminated, the short-term debt authorizations granted should continue for an additional 12 months to provide APS "with sufficient time to prudently address its short-term debt balances." (Comments at 6). Staff has no objection to the Company's suggested change.

DEFINITION OF DEBT

Q. What is Staff's comment regarding APS' suggestion that the Commission adopt provisions to avoid unintended consequences resulting from future changes in generally accepted accounting principals ("GAAP")?

A. APS correctly notes that future changes in GAAP could have unintended consequences as they pertain to the conditions recommended by Staff for issuances of long-term debt. Making provisions to avoid such unintended consequences is prudent. Staff has no objection to (1) establishment of a "Notification Period" consistent with APS' proposal (Comments at 7); and (2) exempting from debt, for purposes of applying the conditions for issuance of debt, (a) existing legally-binding arrangements that are not considered indebtedness under GAAP as of the effective date of the Commission's order in this case and (b) future legally-binding arrangements that are not considered indebtedness under GAAP on their effective dates that subsequently become indebtedness under GAAP due to changes in GAAP until further Commission action if, APS files within the Notification Period, an application with the Commission specifically requesting a decision regarding whether to include or exclude the obligation(s) subject to the change in GAAP in calculations for purposes of applying the conditions for issuance of debt established in this case.

REPLACEMENT OF EXISTING AUTHORIZATIONS

Q. What is Staff's comment to APS' assertion that the authorizations granted in Decision Nos. 55120 and 55320 relating to sale-leaseback of Unit 2 of the Palo Verde Nuclear Generating Station must remain in full force and effect and not terminated by Staff's recommendation "that the authorizations to incur short-term and long-term debt obligations provided in this proceeding replace all existing authorizations and that all existing authorizations terminate upon the effective date of the authorizations provided in this proceeding"?

A. Staff's understanding of the Comments is that APS is in general agreement with this Staff recommendation but is requesting exemptions for authorizations to incur indebtedness granted in Decision Nos. 55120 and 55320.

Staff's recommendation is intended to provide clarity going forward regarding all authority granted by the Commission to incur new indebtedness. Staff's recommendation is not intended to affect any existing debt that has already been incurred; however, obligations should not be extended (i.e., new debt incurred) under existing debt arrangements unless those extended obligations comply with the Commission's authorizations granted in this case. Accordingly, Staff agrees that clarification of its recommendation is appropriate to distinguish between terminations of authorizations that pertain to existing indebtedness versus terminations of authorizations that pertain to extensions of debt under existing arrangements. With that clarification, Staff sees no reason to provide exemptions for existing obligations related to the sale-leaseback of Unit 2 of the Palo Verde Nuclear Generating Station as suggested by the Company.

TERMINATION OF EXISTING AUTHORIZATIONS

Q. Does APS seek clarification/modification to Staff's recommendation "that the short-term and long-term debt levels authorized in this proceeding terminate on December 31, 2012"?

A. Yes, APS seeks two clarifications/modifications to Staff's recommendation.

Clarification/Modification No. 1 – Existing Obligations Remain Valid

Q. What is APS' first suggested clarification/modification to Staff's recommendation for a termination date for debt authorizations?

A. APS suggests that the Commission order in this proceeding "confirm that all short-term and long-term debt legally outstanding at December 31, 2012 remain authorized and valid obligations of APS." (Comments at 9). Staff has no objection to APS' suggested clarification that only authorizations of new debt terminate at December 31, 2012, and that existing obligations at that date remain valid.

Q. What is APS' second suggested clarification/modification to Staff's recommendation for a termination date for debt authorizations?

A. APS requests "that the December 31, 2012 termination date be extended until the Commission issues a new financing order replacing the then-existing order, provided that (a) APS files an application for a new financing order on or before December 31, 2011 and (b) the Commission has not issued an order pursuant to such application on or before December 31, 2012. This will ensure that APS' ability to access the capital markets is not abruptly terminated, which would prohibit APS from funding its ongoing operations and meeting its obligations as a public service corporation." (Comments at 9).

1 **Q. What is Staff's comment to APS' second suggested clarification/modification to**
2 **Staff's recommendation for a termination date for debt authorizations?**

3 A. Due to the immediate needs for short-term authorizations (to fund natural gas and power
4 acquisitions), Staff supports this APS request for short-term debt. However, the needs for
5 long-term debt are of a different nature and have greater long-term effects. Therefore,
6 Staff does not support APS' request as it pertains to long-term debt. A general
7 authorization to issue debt under a specified threshold is not necessary for APS to have
8 access to the capital markets. In the event that the Commission does not grant APS
9 general authorization to issue long-term debt within a specified threshold, the Company
10 could file a request for a specific debt issuance. The Commission may find that granting a
11 specific authorization is preferential to granting a general authorization at that time. Staff
12 recommends that the Commission not prematurely assess the circumstances that might
13 exist in the future and reserve its decision until the future circumstances can be evaluated.
14

15 **MISCELLANEOUS COMMENTS**

16 **Authorized Use of Funds**

17 **Q. What is the nature of APS' comment no. 13, which addresses "working capital**
18 **requirements"?**

19 A. The Staff Report states that "[t]o the extent that the purposes set forth in the application
20 may be considered reasonably chargeable to operating expenses or to income, APS
21 requests that the order or orders from the Commission in this matter authorize such charge
22 or charges and that they be deemed working capital requirements." (Staff Report at 3). In
23 its comments, APS claims that its application did not contain such a request. According to
24 APS, it instead requested that "[t]o the extent that the purposes set forth herein may be
25 considered reasonably chargeable to operating expenses or to income, the Company
26 requests that the order or orders of the Commission in this matter authorize such charge or

1 charges.” In its comments, APS asks that the Commission’s order in this matter not
2 include the phrase “deemed working capital requirements” because, according to APS, not
3 all the uses to which cash proceeds from the requested financing order would potentially
4 be used can be classified as “working capital.”
5

6 **Q. Does Staff have a response to this comment?**

7 A. Yes. APS correctly notes that its application does not include the language used by Staff
8 pertaining to working capital requirements. Staff is not opposed to the Company’s request
9 that the Commission’s order in this matter omit Staff’s language “deemed working capital
10 requirements.” Staff notes that providing for working capital is an acceptable use of
11 indebtedness and that working capital, in turn, supports payment of operating expenses.
12 In essence, authorization to issue debt for working capital is not directly distinguishable
13 from authorization to incur debt for operating expenses. I.e., in practice, since capital is
14 fungible, it is not possible to tie fund sources to fund uses.
15

16 **Waiver of A.A.C. R14-2-803**

17 **Q. Does Staff have a response to the Company assertion that the Staff Report reference**
18 **to a “waiver now in existence (per Decision Nos. 65796 and 55017) of A.A.C. R14-2-**
19 **803” is an error?**

20 A. Yes. The Company correctly noted that no such waiver was granted.
21

Filing Requirements for Nominal Debt Incurrence

Q. Does Staff have a response to the Company's proposal to limit filings in accordance with Staff's recommendation that "on each occasion when APS enters into a new long-term debt agreement that APS file with Docket Control a description of the transaction and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time" to long-term debt agreements involving traditional indebtedness or borrowed money and exclude any long-term debt agreement that has a principal value of less than \$5 million?

A. Yes. To avoid the potential for numerous filings regarding insignificant debt, Staff supports the concept of not requiring a compliance filing each time a nominal amount of debt is incurred. Staff does not agree with APS' request "that such filing requirements be limited to long-term debt agreements involving traditional indebtedness for borrowed money." APS should be diligent in all of its transactions to incur debt regardless of the form it takes. Accordingly, Staff recommends that APS make a compliance filing for each individual agreement/transaction or for the aggregate of similar agreements/transactions with a single entity to incur long-term debt exceeding \$5,000,000 within a calendar year.

STAFF'S RECOMMENDATIONS

Q. What are Staff's recommendations?

A. Staff makes the following recommendations:

Staff recommends increasing APS' authorized long-term debt threshold to \$4.2 billion subject to the following conditions: (1) common equity divided by common equity and long-term debt (including current maturities) is 40 percent or greater using the most recent audited financial statements adjusted to reflect changes to outstanding debt and (2) modified debt service coverage ratio is equal to or greater than 2.0.

1 Staff further recommends that the short-term and long-term debt levels authorized in this
2 proceeding terminate on December 31, 2012.

3
4 Staff further recommends that the authorizations to incur short-term and long-term debt
5 obligations provided in this proceeding replace all existing authorizations to incur new
6 short-term and long-term debt obligations, that all existing authorizations to incur new
7 short-term and long-term debt obligations terminate upon the effective date of the
8 authorizations provided in this proceeding, and that that all existing obligations remain
9 valid.

10
11 Staff further recommends authorization for APS to incur short-term debt not to exceed
12 \$500 million above 7 percent of total capital provided that (1) the excess over 7 percent of
13 total capital shall be used solely for costs relating to natural gas or power purchases and
14 (2) APS has an authorized adjustor mechanism for recovery of these kinds of costs. In the
15 event that the adjustor mechanism is terminated, the short-term debt authorizations
16 granted should continue for an additional 12 months.

17
18 Staff further recommends authorization for APS to (1) conduct the activities enumerated
19 in the application that are necessary to secure and maintain debt, (2) to determine the form
20 of security, if any, for the continuing long-term debt and the continuing short-term debt,
21 execute and deliver the security instruments, and establish and amend the terms and
22 provisions of the security instruments, as may be deemed appropriate by APS in
23 connection with the long-term debt and the short-term debt, and (3) to pay all related
24 expenses, all as contemplated in the application and by the exhibits and testimony.

1 Staff further recommends that when APS enters into a single agreement/transaction or an
2 aggregate of similar agreements/transactions or an amendment(s) to an existing
3 agreement(s) with a single entity in which APS incurs long-term debt exceeding
4 \$5,000,000 within a calendar year, that APS file with Docket Control within 90 days of
5 the transaction or aggregation of transactions of at least \$5,000,000 a description of the
6 transaction(s) and a demonstration that the rates and terms were consistent with those
7 generally available to comparable entities at the time.

8
9 Staff further recommends denial of Pinnacle West's request for authorization of a waiver
10 of A.A.C. Rule 14-2-803 pursuant to A.A.C. Rule 14-2-806. In the alternative, Staff
11 recommends authorization for Pinnacle West to guarantee APS' debt from time to time in
12 indeterminate amounts.

13
14 Staff further recommends authorization for APS to reimburse Pinnacle West for debt
15 service costs paid by Pinnacle West on behalf of APS in conjunction with the provision of
16 guarantees of APS debt and a cost of money on those payments at a rate not to exceed that
17 of the underlying loan(s).

18
19 Staff further recommends denial of APS' request for a declaratory order confirming that
20 only traditional indebtedness for borrowed money requires prior Commission
21 authorization.

22
23 **Q. Does this conclude your Direct Testimony?**

24 **A.** Yes, it does.